

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Frankfort	County Benzie
Audit Date 6/30/05	Opinion Date 9/29/05	Date Accountant Report Submitted to State: 12/19/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49788
Accountant Signature <i>Anderson Tackman & Co Pdlc</i>		Date 12/19/05	

CITY OF FRANKFORT, MICHIGAN

BASIC FINANCIAL STATEMENTS

June 30, 2005

CITY OF FRANKFORT, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

MAYOR

RICHARD BAYER

COMMISSIONER

MYRA ELIAS

COMMISSIONER

JOANN HOLWERDA

COMMISSIONER

PATRICIA HAUGEN

COMMISSIONER

RICHARD JENKINS

APPOINTED OFFICERS

CITY SUPERINTENDENT

JOSH MILLS

CLERK/TREASURER

KIM KIDDER

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Frankfort, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City of Frankfort, Michigan's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2005 on our consideration of the City of Frankfort, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Frankfort, Michigan's basic financial statements. The accompanying information identified in the table of contents, and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to basic financial statements taken as a whole.

The additional information regarding the Municipal Securities Disclosure Requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. The additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Anderson, Tackman & Company, PLC
Certified Public Accountants

September 29, 2005

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets decreased 3% from a year ago decreasing from \$4,767,323 to \$4,623,937. The governmental activities experienced a \$52,908 decrease in net assets primarily due to outlays to construct a new city hall. The business-type activities experienced a \$90,478 decrease in net assets, primarily as a result of new depreciation expenses.

In a condensed format, the table below shows comparison of the net assets of the City of Frankfort.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current Assets	\$ 630,695	\$ 769,838	\$ 621,888	\$ 665,176	\$ 1,252,583	\$ 1,435,014
Noncurrent Assets	<u>2,731,833</u>	<u>1,798,953</u>	<u>3,759,560</u>	<u>3,879,739</u>	<u>6,491,393</u>	<u>5,678,692</u>
Total Assets	<u>3,362,528</u>	<u>2,568,791</u>	<u>4,381,448</u>	<u>4,544,915</u>	<u>7,743,976</u>	<u>7,113,706</u>
Long-Term Debt Outstanding	1,935,230	1,052,758	900,000	960,000	2,835,230	2,012,758
Other Liabilities	<u>202,613</u>	<u>238,440</u>	<u>82,196</u>	<u>95,185</u>	<u>284,809</u>	<u>333,625</u>
Total Liabilities	<u>2,137,843</u>	<u>1,291,198</u>	<u>982,196</u>	<u>1,055,185</u>	<u>3,120,039</u>	<u>2,346,383</u>
Net Assets						
Invested in Capital Assets -						
Net of Debt	849,688	698,202	2,799,560	2,859,739	3,649,248	3,557,941
Restricted	5,582	376,595	315,590	315,590	321,172	692,185
Unrestricted	<u>369,415</u>	<u>202,796</u>	<u>284,102</u>	<u>314,401</u>	<u>653,517</u>	<u>517,197</u>
Total Net Assets	<u>\$ 1,224,685</u>	<u>\$ 1,277,593</u>	<u>\$ 3,399,252</u>	<u>\$ 3,489,730</u>	<u>\$ 4,623,937</u>	<u>\$ 4,767,323</u>

The current level of unrestricted net assets for our governmental activities stands at \$369,415, or about 20% of expenditures. This is within the targeted range set by the City Board of Directors during its last budget process.

The following table shows the activities of the City.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program Revenues						
Charges for Services	\$ 240,960	\$ 143,527	\$ 1,048,289	\$ 997,062	\$ 1,289,249	\$ 1,140,589
Operating Grants and Contributions	344,581	785,622	14,535	12,269	359,116	797,891
General Revenues						
Property Taxes	1,017,341	912,327	-	-	1,017,341	912,327
State-Shared Revenues	147,576	116,560	-	-	147,576	116,560
Federal, State, Local – General	10,740	160,331	-	-	10,740	160,331
Unrestricted Investment Earnings	<u>8,824</u>	<u>8,490</u>	<u>3,066</u>	<u>2,220</u>	<u>11,890</u>	<u>10,710</u>
Total Revenues	<u>1,770,022</u>	<u>2,126,857</u>	<u>1,065,890</u>	<u>1,011,551</u>	<u>2,835,912</u>	<u>3,138,408</u>
Program Expenses						
Legislative	2,055	2,310	-	-	2,055	2,310
General Government	503,612	459,677	-	-	503,612	459,677
Public Safety	420,698	417,190	-	-	420,698	417,190
Public Works	630,595	563,743	-	-	630,595	563,743
Recreation and Culture	144,843	123,897	-	-	144,843	123,897
Interest Expense – Unallocated	57,002	32,775	-	-	57,002	32,775
Other Expenses	69,125	-	-	-	69,125	-
Water and Sewer	-	-	791,087	620,288	791,087	620,288
Marina	-	-	316,680	258,437	316,680	258,437
Garbage and Rubbish	<u>-</u>	<u>-</u>	<u>43,601</u>	<u>35,623</u>	<u>43,601</u>	<u>35,623</u>
Total Expenses	<u>1,827,930</u>	<u>1,599,592</u>	<u>1,151,368</u>	<u>914,348</u>	<u>2,979,298</u>	<u>2,513,940</u>
Change in Net Assets before Transfers	(57,908)	527,265	(85,478)	97,203	(143,386)	624,468
Transfers	<u>5,000</u>	<u>116,629</u>	<u>(5,000)</u>	<u>(116,629)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	<u>\$ (52,908)</u>	<u>\$ 643,894</u>	<u>\$ (90,478)</u>	<u>\$ (19,426)</u>	<u>\$ (143,386)</u>	<u>\$ 624,468</u>

Governmental Activities

Revenue from property taxes increased 12% from the previous year gaining, \$105,014, which was a significant improvement from the trend. Average gains from property taxes over the previous five years were \$29,366 per year. \$65,040 of the \$105,014 came from a new millage to repay city hall bonds.

Expenditures increased by \$249,814. Brownfield and MEDC projects wrapped up in current year.

Business-Type Activities

The City's total business-type revenues increased by approximately \$53,493, primarily due to the marina having an excellent season and increased fuel prices. Garbage and Rubbish expenses slightly increased from using bag and tag inventory.

Expenses increased by about \$237,020 during the year. An increase in contracted services expense occurred because of water and sewer improvements. Fuel costs caused marina expenses to increase.

The City's Funds

Our analysis of the City's major funds begins on page 9, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2005 include the General Fund, Major Streets, Local Streets, City Hall, Water and Sewer, and Marina Funds.

The General Fund pays for most of the City's governmental services. The most significant are Public Safety and General Government, which incurred expense of approximately \$711,902 in 2005. These two services are mostly supported by property taxes and revenue sharing.

Major and Local Streets use Act 51 monies to maintain and construct the City's streets. In 2005, \$156,590 was received from the State of Michigan and \$268,233 was spent for the construction and maintenance of streets. Transfers of \$123,764 were received from the general fund to supplement state funds.

The City Hall was substantially completed by the end of 2005. In the end \$1,085,000 of bond proceeds and a \$100,290 transfer from the general fund paid for the new facility that cost \$1,114,224.

The Water and Sewer fund provide water and waste water service to nearly 922 customers in 2005. The fund generated \$665,907 in user fees and spent \$766,574 in operations.

The Marina fund provides docking and fuel sales to an average of 1000 vessels a year. In 2005, the marina generated \$342,042 in user fees and spent \$310,128 in operations. The increase in fuel costs increased revenues and expenses in 2005. Overall the marina fund had a great year of operations.

The Marina filled 34 seasonal slips and 36 transient slips in 2005. Many repeat customers and many new customers from Grand Haven, Chicago, and Wisconsin. Over one half of the seasonal slips have already been reserved for next season.

General Fund Budgetary Highlights

Over the course of the year, the City board amended the budget to take into account events during the year. There were no significant changes to revenue during the year. The most significant changes relating to expenditures were under general government, which exceeded the budget by \$28,694, capital outlay exceeded the budget by \$23,750, and operating transfers exceeded the budget by \$76,068, resulting in total expenditures \$57,736 above budget. This allowed the General Fund's fund balance to decrease from \$543,518 a year ago to 340,246 at June 30, 2005.

Capital Asset and Debt Administration

At the end of 2005, the City had \$6,491,393 invested in a broad range of capital assets, including Water and Sewer System, Marina, Building and Improvements, Machinery and Equipment, and Land.

The City reduced its bond debt load by \$309,502 in principal payments in fiscal year 2005 and increased it by \$1,037,739, ending with a bond debt balance of \$2,842,145.

Economic Factors and Next Year's Budgets and Rates

The City is in a budget battle from year to year. Normally, the cap on the growth rate under the Headlee Amendment, the voters reluctance to adjust or augment taxes for general operation, and the corresponding double digit growth rates in health and liability insurance have put significant limitations on budget flexibility. There are looming indications from the State that further cuts will occur in State Revenue Sharing and possibly other State funded areas. This could put increased pressure on already tight budget projections. We are pleased to end the current year with healthy fund balances in all but one major fund, but are realistic in projecting revenue from fines and fees for current and future budgets in order that revenue expectations and corresponding expenses are not inflated. Improvements to the City's water and sewer system in the amount of \$2,498,000 are planned for 2005/2006.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the City.

Basic Financial Statements

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Totals
ASSETS:			
Cash & Investments - Unrestricted	\$ 158,762	\$ 119,182	\$ 277,944
- Restricted	340,930	405,551	746,481
Accounts Receivable	-	73,116	73,116
Internal Loans	555	-	555
Due from Governmental Units	130,208	-	130,208
Inventories	-	20,267	20,267
Other Assets	240	3,772	4,012
Capital Assets (Net of Accumulated Depreciation)	2,731,833	3,759,560	6,491,393
TOTAL ASSETS	\$ 3,362,528	\$ 4,381,448	\$ 7,743,976
LIABILITIES:			
Accounts Payable	\$ 68,465	\$ 12,468	\$ 80,933
Accrued Liabilities	11,088	2,384	13,472
Accrued Interest Payable	6,090	6,486	12,576
Due to Governmental Units	881	858	1,739
Compensated Absences	169,174	-	169,174
Capital Leases - Current	19,939	-	19,939
Capital Leases	11,878	-	11,878
Installment Loans - Current	37,150	-	37,150
Installment Loans	42,178	-	42,178
Bonds Payable - Current	59,000	60,000	119,000
Bonds Payable	1,712,000	900,000	2,612,000
TOTAL LIABILITIES	2,137,843	982,196	3,120,039
NET ASSETS:			
Invested in Capital Assets (net of related debt)	849,688	2,799,560	3,649,248
Restricted for Trust Purposes	5,582	-	5,582
Restricted for Debt	-	315,590	315,590
Unrestricted	369,415	284,102	653,517
TOTAL NET ASSETS	\$ 1,224,685	\$ 3,399,252	\$ 4,623,937

Statement of Activities
For the Year Ended June 30, 2005

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
Legislative	\$ 2,055	\$ -	\$ -	\$ -	\$ (2,055)	\$ -	\$ (2,055)
General Government	503,612	57,929	13,345	-	(432,338)	-	(432,338)
Public Safety	420,698	113,025	37,501	-	(270,172)	-	(270,172)
Public Works	630,595	626	293,485	-	(336,484)	-	(336,484)
Recreation & Culture	144,843	69,380	250	-	(75,213)	-	(75,213)
Interest expense - Unallocated	57,002	-	-	-	(57,002)	-	(57,002)
Other Expenses	69,125	-	-	-	(69,125)	-	(69,125)
Total Governmental Activities	1,827,930	240,960	344,581	-	(1,242,389)	-	(1,242,389)
Business-type activities:							
Water & Sewer	791,087	665,907	14,535	-	-	(110,645)	(110,645)
Marina	316,680	342,042	-	-	-	25,362	25,362
Garbage & Rubbish	43,601	40,340	-	-	-	(3,261)	(3,261)
Total Business-type Activities	1,151,368	1,048,289	14,535	-	-	(88,544)	(88,544)
Total Primary Government	\$ 2,979,298	\$ 1,289,249	\$ 359,116	\$ -	(1,242,389)	(88,544)	(1,330,933)
General Revenues:							
Taxes					1,017,341	-	1,017,341
State Revenue Sharing					147,576	-	147,576
Federal, State, & Local - General					10,740	-	10,740
Investment Earnings (Loss)					8,824	3,066	11,890
Transfers					5,000	(5,000)	-
Total General Revenues and Transfers					1,189,481	(1,934)	1,187,547
Change in Net Assets					(52,908)	(90,478)	(143,386)
Net Assets - Beginning					1,277,593	3,489,730	4,767,323
Net Assets - Ending					\$ 1,224,685	\$ 3,399,252	\$ 4,623,937

City of Frankfort, Michigan

Balance Sheet Governmental Funds June 30, 2005

	General	Major Streets	Local Streets	City Hall Fire Building	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash & Investments - Unrestricted	\$ 153	\$ 12,238	\$ 15,000	\$ 41,072	\$ 90,299	\$ 158,762
- Restricted	266,228	14,702	-	-	60,000	340,930
Due from Other Funds	55,613	-	-	-	-	55,613
Other Assets	-	-	-	-	240	240
Due from Governmental Units	63,061	14,939	6,090	32,945	13,173	130,208
TOTAL ASSETS	\$ 385,055	\$ 41,879	\$ 21,090	\$ 74,017	\$ 163,712	\$ 685,753
LIABILITIES:						
Due to Other Funds	\$ -	\$ 39,299	\$ 6,259	\$ -	\$ 9,500	\$ 55,058
Accounts Payable	35,412	8	-	32,945	100	68,465
Accrued Liabilities	8,516	2,572	-	-	-	11,088
Due to Governmental Units	881	-	-	-	-	881
TOTAL LIABILITIES	44,809	41,879	6,259	32,945	9,600	135,492
FUND BALANCES:						
Reserved for Trust	-	-	-	-	5,582	5,582
Unreserved:						
Undesignated	32,751	-	14,831	41,072	108,106	196,760
Designated for Debt Service	-	-	-	-	16,419	16,419
Designated for Special Projects	307,495	-	-	-	24,005	331,500
TOTAL FUND BALANCES	340,246	-	14,831	41,072	154,112	550,261
TOTAL LIABILITIES AND FUND BALANCES	\$ 385,055	\$ 41,879	\$ 21,090	\$ 74,017	\$ 163,712	
Reconciliation to amounts reported for governmental activities in the statement of net assets:						
Capital assets used by governmental activities						2,731,833
Long-term bonds, notes & leases payable for governmental activities						(1,882,145)
Compensated absences liability						(169,174)
Accrued interest expense						(6,090)
Net assets of governmental activities						\$ 1,224,685

See accompanying notes to financial statements.

City of Frankfort, Michigan

Statement of Changes in Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended June 30, 2005

	General	Major Streets	Local Streets	City Hall Fire Building	Other Governmental Funds	Totals Governmental Funds
REVENUES:						
Taxes	\$ 796,892	\$ -	\$ -	\$ 65,040	\$ 155,409	\$ 1,017,341
Federal Sources	-	-	-	-	57,306	57,306
State Sources	147,927	109,557	47,033	-	2,150	306,667
Local Sources	90,334	-	-	2,850	35,000	128,184
Charges for Services	115,782	-	-	-	100,572	216,354
Interest & Rentals	6,902	139	14	-	1,769	8,824
Other Revenue	31,671	245	245	-	3,185	35,346
TOTAL REVENUES	1,189,508	109,941	47,292	67,890	355,391	1,770,022
EXPENDITURES:						
Legislative	2,055	-	-	-	-	2,055
General Government	475,173	-	-	-	-	475,173
Public Safety	236,727	-	-	-	103,177	339,904
Public Works	188,262	156,979	111,254	-	76,510	533,005
Recreation & Cultural	123,474	-	-	-	-	123,474
Capital Outlay	50,791	-	-	1,092,088	25,940	1,168,819
Debt Service	112,308	-	-	39,474	155,476	307,258
TOTAL EXPENDITURES	1,188,790	156,979	111,254	1,131,562	361,103	2,949,688
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	718	(47,038)	(63,962)	(1,063,672)	(5,712)	(1,179,666)
OTHER FINANCING SOURCES (USES):						
Bond Proceeds	-	-	-	997,770	-	997,770
Operating Transfers In	11,250	57,038	76,726	100,290	40,736	286,040
Operating Transfers Out	(215,240)	(10,000)	-	-	(55,800)	(281,040)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(203,272)	-	12,764	34,388	(20,776)	(176,896)
FUND BALANCES, JULY 1	543,518	-	2,067	6,684	174,888	727,157
FUND BALANCES, JUNE 30	\$ 340,246	\$ -	\$ 14,831	\$ 41,072	\$ 154,112	\$ 550,261

See accompanying notes to financial statements.

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2005**

Net changes in fund balances – total governmental funds \$ (176,896)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$1,139,664 exceeded depreciation expense (\$206,784). 932,880

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal repayments:		
Bond principal	\$ 154,000	
Installment principal	87,350	
Lease principal	<u>8,152</u>	
		249,502

Amounts reported as bond and lease proceeds in the fund financial statements that are not recognized as revenue in the statement of activities are reported here. (1,037,740)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	\$ (21,408)	
Accrued interest on bonds	<u>754</u>	
		<u>(20,654)</u>

Changes in net assets of governmental activities \$ (52,908)

Statement of Net Assets

Proprietary Funds

June 30, 2005

	Enterprise Funds		Nonmajor Fund	
	Water & Sewer	Marina	Garbage & Rubbish	Totals
ASSETS:				
Cash & Investments - Unrestricted	\$ 4,078	\$ 82,468	\$ 32,636	\$ 119,182
- Restricted	405,551	-	-	405,551
Accounts Receivable	70,668	2,448	-	73,116
Inventories	-	11,881	8,386	20,267
Other Assets	-	3,772	-	3,772
Property, Plant & Equipment	4,219,132	1,730,859	-	5,949,991
Accumulated Depreciation	(1,217,908)	(972,523)	-	(2,190,431)
TOTAL ASSETS	\$ 3,481,521	\$ 858,905	\$ 41,022	\$ 4,381,448
LIABILITIES:				
Accounts Payable	\$ 11,862	\$ 606	\$ -	\$ 12,468
Accrued Liabilities	1,866	518	-	2,384
Accrued Interest Payable	5,955	531	-	6,486
Due to Other Governmental Units	-	858	-	858
Bonds Payable - Current	50,000	10,000	-	60,000
Bonds Payable	760,000	140,000	-	900,000
TOTAL LIABILITIES	829,683	152,513	-	982,196
NET ASSETS:				
Invested in Capital Assets (net of related debt)	2,191,224	608,336	-	2,799,560
Restricted for Debt	315,590	-	-	315,590
Unrestricted	145,024	98,056	41,022	284,102
TOTAL NET ASSETS	\$ 2,651,838	\$ 706,392	\$ 41,022	\$ 3,399,252

**Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
For the Year Ended June 30, 2005**

	Enterprise Funds		Nonmajor Fund	
	Water & Sewer	Marina	Garbage & Rubbish	Totals
OPERATING REVENUES:				
Charges for Services	\$ 665,907	\$ 342,042	\$ 40,340	\$ 1,048,289
Other Revenue	14,535	-	-	14,535
Total Operating Revenues	680,442	342,042	40,340	1,062,824
OPERATING EXPENSES:				
Employee Wages & Benefits	113,585	36,609	12,998	163,192
Plant Operation	327,663	-	-	327,663
Supplies	25,458	137,835	30,603	193,896
Repairs & Maintenance	38,263	10,430	-	48,693
Contracted Services	129,592	873	-	130,465
Insurance	10,167	2,155	-	12,322
Depreciation	108,533	46,048	-	154,581
Marina Operations	-	65,485	-	65,485
Other Expenses	13,313	10,693	-	24,006
Total Operating Expenses	766,574	310,128	43,601	1,120,303
OPERATING INCOME (LOSS)	(86,132)	31,914	(3,261)	(57,479)
NON-OPERATING REVENUES (EXPENSES):				
Interest Expense	(24,513)	(6,552)	-	(31,065)
Interest & Rentals	1,997	695	374	3,066
Operating Transfers Out	-	(5,000)	-	(5,000)
Total Non-operating Expenses	(22,516)	(10,857)	374	(32,999)
CHANGE IN NET ASSETS	(108,648)	21,057	(2,887)	(90,478)
NET ASSETS, JULY 1	2,760,486	685,335	43,909	3,489,730
NET ASSETS, JUNE 30	<u>\$ 2,651,838</u>	<u>\$ 706,392</u>	<u>\$ 41,022</u>	<u>\$ 3,399,252</u>

City of Frankfort, Michigan

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2005

	Enterprise Funds		Nonmajor Fund	
	Water & Sewer	Marina	Garbage & Rubbish	Totals
Cash Flows From Operating Activities:				
Cash Received from Customers or Users	\$ 709,561	\$ 340,429	\$ 40,340	\$ 1,090,330
Cash Payments to Vendors & Employees	(648,298)	(274,629)	(50,597)	(973,524)
Net Cash Provided (Used) By Operating Activities	<u>61,263</u>	<u>65,800</u>	<u>(10,257)</u>	<u>116,806</u>
Cash Flows from Non-capital Financing Activities:				
Transfers (Out)	-	(5,000)	-	(5,000)
Net Cash Provided (Used) for Non-capital Financing Activities	<u>-</u>	<u>(5,000)</u>	<u>-</u>	<u>(5,000)</u>
Cash Flows From Capital and Related Financing Activities:				
Debt Principal Payments	(50,000)	(10,000)	-	(60,000)
Debt Interest Payments	(24,513)	(6,552)	-	(31,065)
Purchase of Property and Equipment	(34,401)	-	-	(34,401)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(108,914)</u>	<u>(16,552)</u>	<u>-</u>	<u>(125,466)</u>
Cash Flows From Investing Activities:				
Interest Income	1,997	695	374	3,066
Net Cash Provided (Used) by Investing Activities	<u>1,997</u>	<u>695</u>	<u>374</u>	<u>3,066</u>
Net Increase (Decrease) in Cash	(45,654)	44,943	(9,883)	(10,594)
Cash and Cash Equivalents at Beginning of Year	455,283	37,525	42,519	535,327
Cash and Cash Equivalents at End of Year	<u>\$ 409,629</u>	<u>\$ 82,468</u>	<u>\$ 32,636</u>	<u>\$ 524,733</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income	\$ (86,132)	\$ 31,914	\$ (3,261)	\$ (57,479)
Add Non-Cash Expenses:				
Depreciation	108,533	46,048	-	154,581
Changes in Assets and Liabilities:				
Decrease (Increase) in Assets:				
Receivables	14,796	(1,613)	-	13,183
Due from Other Funds	14,323	-	-	14,323
Inventory	-	-	6,184	6,184
Other Assets	-	(3,772)	-	(3,772)
Prepaid Expenses	-	2,776	-	2,776
Increase (Decrease) in Liabilities:				
Due to Governmental Unit	-	(4,151)	-	(4,151)
Accounts Payable	10,761	(4,723)	(13,175)	(7,137)
Accrued Liabilities	(1,018)	(679)	(5)	(1,702)
Net Cash Provided (Used) By Operating Activities	<u>\$ 61,263</u>	<u>\$ 65,800</u>	<u>\$ (10,257)</u>	<u>\$ 116,806</u>

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Agency Funds		
	County	District	
	School Tax	Library	Totals
ASSETS:			
Cash & Cash Equivalents:			
Unrestricted	\$ -	\$ 339	\$ 339
Due From Other Governmental Units	386	-	386
TOTAL ASSETS	<u>\$ 386</u>	<u>\$ 339</u>	<u>\$ 725</u>
LIABILITIES:			
Due to Other Funds	\$ 386	\$ 169	\$ 555
Due to Other Governmental Units	-	170	170
TOTAL LIABILITIES	<u>\$ 386</u>	<u>\$ 339</u>	<u>\$ 725</u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Frankfort was incorporated as a Home Rule City on March 11, 1935 under the authority granted by the Constitution and laws of the State of Michigan under the 1909 Public Act 279, as amended. The City operates under a charter adopted May 20, 1935 and is governed by an elected Mayor and Council. The City provides services to its residents in many areas including law enforcement, fire protection, community enrichment and development, refuse collection and human services.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, no other governmental organizations are considered to be part of the reporting entity for financial statement purposes. The criteria established by GASB Statement No. 14 for various governmental organizations to be included in the reporting entity's financial statement include legal separation, financial accountability and fiscal dependency.

Jointly Governed Organization

The City has formed a utilities authority with the Village of Elberta to own and operate a wastewater treatment plant that serves both communities. The Betsie Lake Utilities Authority (BLUA) is governed by a 5-member commission with representatives from each constituent municipality. The Authority is legally separate and not fiscally dependent on the City of Frankfort. It is therefore not a component of the City but rather a related organization. The Utility Authority, not being a part of the reporting entity, is audited under a separate contract; therefore it is not included in these financial statements. Complete financial statements can be obtained from the Betsie Lake Utility Authority, Frankfort, Michigan.

The City-County Airport Authority, an entity legally separate from the City, is governed by a five-member board. Two members are appointed from the County of Benzie; two members are appointed from the City of Frankfort; and the fifth member is appointed by the four members of the County and City.

For financial reporting purposes, the Authority is reported as a separate unit because the Authority can legally issue debt (although it has a letter of understanding with the City of Frankfort that no debt will be issued); levy tax revenue if desired; and adopt and amend its own budget. In the event of the Authority being dissolved, it will be reverted to the City of Frankfort. The Authority operates on a June 30 year end and is audited under a separate contract. Complete financial statements can be obtained from the County of Benzie, P.O. Box 377, 448 Court Place, Beulah, MI 49617.

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including its fiduciary-funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services and sales, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets. The Major Street Fund is used to account for the repair, maintenance, and construction of the City's major streets.

Local Streets. The Local Street Fund is used to account for the repair, maintenance, and construction of the City's local streets.

City Hall/Fire Building. This capital project fund is used to account for the construction of the new City Hall and Fire Building.

The City reports the following major enterprise funds:

Water and Sewer. This fund accounts for the operation, maintenance, and development of water and sewer utilities.

Marina. This fund accounts for the operation, maintenance and development of the Marina.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

The City reports the following fund types:

Governmental Funds

General Fund. Described above.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Permanent Funds. The Tri Centennial Trust is the City's permanent fund. The principle portion of this fund must stay intact, but the interest earnings are used to provide for the trust's purpose.

Enterprise Funds. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Agency Funds. These funds account for monies held on behalf of other government units, employees, and retirement boards that use the City as a custodian.

Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, entitlements, and donations. On an accrual basis, revenue from taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Assets, Liabilities, and Equity**Cash and Cash Equivalents**

The City considers cash and cash equivalents to be cash on hand and demand deposits and investments with a maturity of 90 days or less. Pooled investment income from all funds is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Interfund Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 consist of the road network assets bridges, sidewalks, and storm sewers that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. All assets with a cost of \$250 or more and useful life of one (1) year or more are capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure - Sidewalks	10 – 30 years
- Roads	10 – 30 years
- Bridges	50
- Storm sewers	50
- Water & Sewer Systems	40
Buildings	30 – 50
Building improvements	15 – 20
Vehicles	2 – 15
Office equipment	3 – 15
Computer equipment	3 – 15

Budgetary Data

The City Clerk/Treasurer prepares and submits a proposed operating budget for the General Fund, Special Revenue Funds, Debt Service, and Capital Project Funds to the City Council for its review and consideration. The Council conducts a public hearing and subsequently adopts the operating budget. The Council approves all budget amendments. The budget is adopted at the activity level and is prepared on the modified accrual basis of accounting which is the same basis as the financial statements of the applicable funds. The budgets lapse at year-end. A budgetary comparison statement is not presented for the City Hall Fire Building because it is a capital project fund and is not legally required to be disclosed.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)
Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

NOTE 2 - CASH AND INVESTMENTS:

	<u>Primary Government</u>	<u>Reporting Entity</u>	<u>Fiduciary Funds</u>
Cash and Investments:			
- Unrestricted	\$ 277,944	\$ 277,944	\$ 339
- Restricted	<u>746,481</u>	<u>746,481</u>	<u>-</u>
Total	<u>\$ 1,024,425</u>	<u>\$ 1,024,425</u>	<u>\$ 339</u>
Imprest	\$ 653	\$ 653	\$ -
CD's savings and checking	<u>1,023,772</u>	<u>1,023,772</u>	<u>339</u>
Total	<u>\$ 1,024,425</u>	<u>\$ 1,024,425</u>	<u>\$ 339</u>

Deposits:

These deposits are in various financial institutions located in Benzie County in varying amounts. All accounts are in the name of the City and specific funds. They are recorded in City records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 2 - CASH AND INVESTMENTS: (Continued)Cash and Investments – Restricted:

The following funds have restricted cash and investments for various purposes:

Primary Government:

<u>Fund Type/Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund:		
	Capital Outlay	\$ 15,982
	Equipment Reserve	27,617
	DPW Improvements	12,000
	Park Improvements	5,000
	Launch Ramp Improvements	15,000
	Building Reserve	25,000
	Grant Match	56,985
	Land Contract	5,000
	Compensated Absences	79,350
	Fire District	16,103
	Police Car	1,106
	Paving Reserve	7,085
Major Streets:		
	Equipment Reserve	14,702
Debt Service:		
	Debt Service	16,419
Water and Sewer:		
	Equipment Reserve	4,660
	Improvement-Sewer	88,341
	Emergency	7,965
	Sewer Bond	82,463
	Improvement-Sewer	23,193
	Wellhead Projection	25,064
	Water Meter	18,912
	Improvement-Water	78,278
	Launch Ramp	1,346
	Sewer Bond	417
	Improvement-Water	74,912
Fire Fund:		
	Fire Equipment	37,999
Tri-Centennial Trust:		
	Trust Purposes	<u>5,582</u>
		<u>\$ 746,481</u>

NOTE 2 - CASH AND INVESTMENTS: (Continued)

DEPOSITS

The City's deposits for the Primary Government are deposited in several financial institutions. Deposits are carried at cost.

	Collateralized Insured	Uncollateralized Uninsured	Bank Balance	Carrying Amount
<u>Primary Government:</u>				
Deposits:				
Checking and savings accounts	\$ 100,000	\$ 973,440	\$ 1,073,440	\$ 997,396
Certificates of deposit	\$ 5,553	\$ -	\$ 5,553	\$ 5,553

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$973,440 of the City's bank balance of \$1,078,993 was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority

Michigan law (Public Act 20 of 1943, as amended) authorizes the City of Frankfort to deposit and invest in one or more of the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.

NOTE 2 - CASH AND INVESTMENTS: (Continued)

- (d) Repurchase agreements consisting of instruments listed in a.
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (h) Obligation described in a. through g. if purchased through an interlocal agreement under the urban corporation act of 1967, 1967 (EX Sess) PA 7, MCL 124.501 to 124.512.
- (i) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- (j) The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The City of Frankfort reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds.

Interfund balances at June 30, 2005 consisted of the following:

Due To	Due From			
	Major Streets	Local Streets	All Others	Total
General Fund	\$ <u>39,299</u>	\$ <u>6,259</u>	\$ <u>10,055</u>	\$ <u>55,613</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS: (Continued)

Interfund transfers for the year ended June 30, 2005 consisted of the following:

Transfer To	Transfer From				
	General Fund	Major Streets	Marina	All Others	Total
General Fund	\$ -	\$ -	\$ 5,000	\$ 6,250	\$ 11,250
Major Streets	57,038	-	-	-	57,038
Local Streets	66,726	10,000	-	-	76,726
City Hall	88,976	-	-	11,314	100,290
All Others	2,500	-	-	38,236	40,736
Total	<u>\$ 215,240</u>	<u>\$ 10,000</u>	<u>\$ 5,000</u>	<u>\$ 55,800</u>	<u>\$ 286,040</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 4 - ACCOUNTS RECEIVABLE:

Receivables as of year-end for the government's individual major and nonmajor funds are as follows:

	General Fund	Major Streets	Local Streets	City Hall	Water and Sewer	Marina	Other Nonmajor Funds	Total
Receivables:								
Accounts	\$ -	\$ -	\$ -	\$ -	\$ 70,668	\$ 2,448	\$ -	\$ 73,116
Due From Others	63,061	14,939	6,090	32,945	-	-	13,173	130,208
Net Receivables	<u>\$ 63,061</u>	<u>\$ 14,939</u>	<u>\$ 6,090</u>	<u>\$ 32,945</u>	<u>\$ 70,668</u>	<u>\$ 2,448</u>	<u>\$ 13,173</u>	<u>\$ 203,324</u>

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
<i>Capital assets not depreciated:</i>				
Land & land improvements	\$ 278,737	\$ -	\$ -	\$ 278,737
Construction in progress	80,546	-	80,546	-
Total assets not depreciated	<u>359,283</u>	<u>-</u>	<u>80,546</u>	<u>278,737</u>

NOTE 5 - CAPITAL ASSETS: (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Capital assets being depreciated:</i>				
Land improvements	866,017	25,853	-	891,870
Buildings and improvements	818,645	1,114,224	-	1,932,869
Machinery and equipment	<u>1,053,365</u>	<u>80,133</u>	<u>-</u>	<u>1,133,498</u>
Total capital assets being depreciated	<u>2,738,027</u>	<u>1,220,210</u>	<u>-</u>	<u>3,958,237</u>
Less accumulated depreciation for:				
Land improvements	(79,575)	(46,943)	-	(126,518)
Buildings and improvements	(568,735)	(21,982)	-	(590,717)
Machinery and equipment	<u>(650,047)</u>	<u>(137,859)</u>	<u>-</u>	<u>(787,906)</u>
Total accumulated depreciation	<u>(1,298,357)</u>	<u>(206,784)</u>	<u>-</u>	<u>(1,505,141)</u>
Total capital assets being depreciated, net	<u>1,439,670</u>	<u>1,013,426</u>	<u>-</u>	<u>2,453,096</u>
Governmental activities capital assets, net	<u>\$ 1,798,953</u>	<u>\$ 1,013,426</u>	<u>\$ 80,546</u>	<u>\$ 2,731,833</u>
Business-type activities:				
<i>Capital assets not depreciated:</i>				
Land	<u>\$ 17,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,000</u>
<i>Capital assets being depreciated:</i>				
Land improvements	-	5,000	-	5,000
Water system	2,637,100	-	-	2,637,100
Sewer system	1,410,670	7,812	-	1,418,482
Marina	1,599,539	-	-	1,599,539
Equipment	<u>251,281</u>	<u>21,589</u>	<u>-</u>	<u>272,870</u>
Total capital assets being depreciated	<u>5,898,590</u>	<u>34,401</u>	<u>-</u>	<u>5,932,991</u>
Less accumulated depreciation for:				
Water system	524,111	62,645	-	586,756
Sewer system	500,083	32,131	-	532,214
Marina	857,032	40,567	-	897,599
Equipment	<u>154,625</u>	<u>19,237</u>	<u>-</u>	<u>173,862</u>
Total accumulated depreciation	<u>2,035,851</u>	<u>154,580</u>	<u>-</u>	<u>2,190,431</u>
Total capital assets being depreciated, net	<u>3,862,739</u>	<u>(120,179)</u>	<u>-</u>	<u>3,742,560</u>
Business-type activities capital assets, net	<u>\$ 3,879,739</u>	<u>\$ (120,179)</u>	<u>\$ -</u>	<u>\$ 3,759,560</u>

NOTE 5 - CAPITAL ASSETS: (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 20,752
Public Safety	78,946
Public Works	85,717
Recreation and Culture	<u>21,369</u>
Total Governmental Activities	<u>\$ 206,784</u>

NOTE 6 - LONG-TERM DEBT:

General Long-Term Debt - The bonds payable reflected in the basic financial statements consist of general obligation notes incurred by the City of Frankfort. The City has pledged the general full faith and credit of the City for the payment of principal and interest on the bonds.

Changes in long-term debt during the twelve months ending June 30, 2005 are summarized as follows:

	Balance 07/01/04	Additions	Deductions	Balance 06/30/05	Due Within One Year
Enterprise Funds:					
2003 Marina Revenue Bonds maturing serially to 2013 in annual amounts ranging from \$10,000 to \$20,000 and bearing interest of 4.25%. Secured by revenues of the Marina.	\$ 160,000	\$ -	\$ 10,000	\$ 150,000	\$ 10,000
1993 Sewage Disposal System Revenue Bonds maturing serially to 2013 in annual amounts ranging from \$5,000 to \$15,000 and bearing interest from 2.9% to 5.9%. Secured by net revenues of sewer system and, if applicable, ad valorem tax levy.	115,000	-	10,000	105,000	10,000
1998 Water Supply System Revenue Bonds maturing serially to 2019 in annual amounts ranging from \$35,000 to \$55,000 and bearing interest of 2.50%. Secured by net revenues of the water system.	<u>745,000</u>	<u>-</u>	<u>40,000</u>	<u>705,000</u>	<u>40,000</u>
Total Enterprise Funds	<u>1,020,000</u>	<u>-</u>	<u>60,000</u>	<u>960,000</u>	<u>60,000</u>

General Long-Term Debt:

2000 General Obligation Unlimited Tax Street Bonds maturing serially to 2004 in annual amounts ranging from \$65,000 to \$95,000 at an interest rate of 4.95%.	95,000	-	95,000	-	-
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NOTE 6 - LONG-TERM DEBT: (Continued)

	Balance 07/01/04	Additions	Deductions	Balance 06/30/05	Due Within One Year
General Long-Term Debt: (Continued)					
2001 Installment Loan Purchase Agreement for a Cat front end loader through West Michigan National Bank and Trust.	24,686	-	24,686	-	-
Decorative Street Lighting Installment Purchase Agreement payable in monthly installments at an annual interest rate of 5.0%.	114,650	-	35,322	79,328	37,150
2004 General Obligation Unlimited Tax Bonds maturing serially to 2034 in annual amounts ranging from \$19,000 to \$63,000 at an interest rate of 4.375%.	87,230	997,770	19,000	1,066,000	19,000
Installment purchase agreement payable in ten annual installments of \$6,306 at an interest rate of 4.87% per annum secured by beach cleaner.	27,342	-	27,342	-	-
1998 General Obligation Unlimited Tax Water Bonds maturing serially to 2019 in annual amounts ranging from \$35,000 to \$55,000 at an interest rate of 2.50%.	745,000	-	40,000	705,000	40,000
Accrued sick leave and vacation	158,365	10,809	-	169,174	-
Total General Long-Term Obligations	1,252,273	1,008,579	241,350	2,019,502	96,150
TOTAL LONG TERM OBLIGATIONS	\$ 2,272,273	\$ 1,008,579	\$ 301,350	\$ 2,979,502	\$ 156,150

The annual principal and interest requirements for the years ending June 30, 2005 and after, excluding accrued compensated absences are as follows:

	Enterprise		General Obligations		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal:						
2006	\$ 60,000	\$ 29,483	\$ 96,150	\$ 66,933	\$ 156,150	\$ 96,416
2007	65,000	27,361	99,078	63,184	164,078	90,545
2008	65,000	25,134	64,100	60,070	129,100	85,204
2009	70,000	22,906	62,000	58,137	132,000	81,043
2010	75,000	20,322	67,000	56,113	142,000	76,435
2011-2015	360,000	60,208	362,000	248,082	722,000	308,290
2016-2020	265,000	16,938	423,000	186,338	688,000	203,276
2021-2025	-	-	197,000	131,600	197,000	131,600
2026-2030	-	-	244,000	84,569	244,000	84,569
2031-2035	-	-	236,000	26,381	236,000	26,381
TOTALS	\$ 960,000	\$ 202,352	\$ 1,850,328	\$ 981,407	\$ 2,810,328	\$ 1,183,759

NOTE 6 - LONG-TERM DEBT: (Continued)

Interest on expense of the business-type activities is included as a direct expense of water and sewer and marina operations. Interest expense of the governmental activities is unallocated.

NOTE 7 - COMPENSATED ABSENCES:

Accumulated unpaid vacation, sick leave and longevity for police and other City employees are recorded in the basic financial statements. Based upon union contracts and personnel policies, as of June 30, 2005, the liability totaled \$169,174.

Vacation is earned in varying amounts based on an employee's years of service. Accrued vacation for salaried and nonunion employees' leave is limited to the amount earned in the prior year, except by mutual agreement between the City and the employees. Employees of the City Police Department are allowed to carry over a maximum of 40 hours of vacation from one year to the next.

Sick leave is earned at a rate of 1 day per month of service and is limited to 120 days accumulation per employee.

NOTE 8 - PROPERTY TAXES:

City property taxes are attached as an enforceable lien on property as of December 31 of the prior year. Real property taxes not collected as of March 1 are transferred to Benzie County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

The taxable value of real and personal property located in the City at December 31, 2004 totaled \$55,569,645. The tax levy for that year was based on the following rates:

	<u>Millage Rate Used</u>
General Operating	1.42981
Water and Sewer Debt	0.10456
Main Street Debt	0.17512
City Hall	0.11708

NOTE 9 - FUND BALANCE/RETAINED EARNING DESIGNATIONS/RESERVES:

General Fund

The General Fund balance is designated by \$307,495 for special projects.

Water and Sewer Fund

The Water and Sewer Fund Retained Earnings balance is reserved by \$315,590 to reflect the monies reserved for future maintenance projects, debt payments, and capital outlays for the water and sewer system.

Tri Centennial Trust

The Tri Centennial Trust Fund balance is reserved for trust purposes.

NOTE 10 - DEFINED BENEFIT PENSION PLAN:

The City of Frankfort participates in a statewide government agent multiple-employer public pension plan which covers substantially all employees.

Plan Description

The City contributes to the Michigan Municipal Employees Retirement System, an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for units of local government in Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. All full-time employees become a member of the System on the first day of employment, and are completely vested after 10 years of service. Service retirement allowances are based upon percentages ranging from 1 to 2.5 percent of 3 to 5-year final average compensation depending on benefit program selected social security coverage, etc. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining unit and personnel policy, which requires employees to contribute to the plan. The City is required to contribute at an actuarially determined rate.

NOTE 10 - DEFINED BENEFIT PENSION PLAN: (Continued)

The contribution rate as a percentage of payroll at December 31, 2004 is as follows:

General - Employees	8.91%
General - Police	13.72%

Annual Pension Cost

During the fiscal year ended June 30, 2005, the City's contributions totaling \$54,080 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level of percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information as of December 31 follows:

	2002	2003	2004
Actuarial Value of Assets	\$ 1,269,924	\$ 1,399,955	\$ 1,471,778
Actuarial Accrued Liability	1,731,425	1,858,960	2,039,461
Unfunded AAL	461,501	459,005	567,683
Funded Ratio	73%	75%	72%
Covered Payroll	597,883	548,033	525,919
UAAL as a Percentage of Covered Payroll	77%	84%	108%

NOTE 11 - COMMITMENTS AND CONTINGENCIES:

Grant Assistance - The City received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2005.

Bonds Payable - The City has pledged its full faith and credit for payment of principal and interest of the various bond issues of the Water and Sewer Fund. The general obligation bonds payable for the Water and Sewer Fund are recorded as liabilities in the Enterprise Fund.

NOTE 11 - COMMITMENTS AND CONTINGENCIES: (Continued)

Property Taxes - In accordance with an agreement, Benzie County annually purchases real property taxes and delinquent special assessments (included on the tax bills) which have not been paid as of March 1 from the City. The County has recourse against the City for amounts which remain unpaid.

Litigation - The City is involved in various lawsuits now pending. It is the opinion of the City and of its counsel that the outcome of the various lawsuits will not materially affect the operations or the financial position of the City. The amount of all legal costs relating to such actions are not currently determinable.

NOTE 12 - SUBSEQUENT EVENTS:

In August of 2005, the City was approved to borrow \$2,498,000 from Rural Development to make improvements to its water and sewer system.

NOTE 13 - RISK MANAGEMENT:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The City joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its automobile, property, general liability, and Worker's Compensation insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$250 for each insured event.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The City is unable to provide an estimate of the amounts of any potential additional assessments.

NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS:

Segment information for the year ended June 30, 2005, is as follows:

	Water and Sewer	Marina
Operating Revenues	\$ 680,442	\$ 342,042
Depreciation	108,533	46,048
Operating Income (Loss)	(86,132)	31,914
Operating Interfund Transfers (net)	-	(5,000)
Change in Net Assets	(108,648)	21,057

NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS: (Continued)

	Water and Sewer	Marina
Property, Plant and Equipment		
Additions (net)	34,401	-
Net Working Capital	410,614	88,056
Total Assets	3,481,521	858,905
Bonds and Other Long-term		
Liabilities Payable from		
Operating Revenues	760,000	140,000
Total Equity	2,651,838	706,392

NOTE 15 - RELATED PARTIES:

The Betsie Lake Utility Authority was created by the City of Frankfort and the Village of Elberta to provide water and sewer services for the two municipalities. The two units bill and collect charges to the public for the private use of the system. The Authority in turn bills the two municipalities for use and debt service fees.

NOTE 16 - EXCESS EXPENDITURES OVER APPROPRIATIONS:

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures were in excess of amounts appropriated as follows:

	Budget	Actual	Variance
General Fund:			
General Government	\$ 446,479	\$ 475,173	\$ 28,694
Operating Transfers Out	139,172	215,240	76,068
Capital Outlay	27,041	50,791	23,750
City Hall Fire Building Fund:			
Capital Outlay	1,070,790	1,092,088	21,298
Debt Service	30,242	39,474	9,232

Budgeting

Additionally, the City did not adopt its budgets in accordance with the state law. Specifically, budgets adopted for the Major and Local Streets, City Hall, and MEDC Funds had expenditures in excess of beginning fund balance. These funds should be budgeted in accordance with Uniform Budgeting and Accounting Act guidelines.

NOTE 17 - LEASE OBLIGATIONS:

During fiscal 2005, the City executed a noncancelable capital lease for the purchase of \$39,969 of office equipment. Subsequent payments are as follows:

2006	\$	20,544
2007		<u>11,984</u>
Total Payments		32,528
Interest Portion		<u>(711)</u>
Net Present Value of Minimum		
Lease Payments	\$	<u>31,817</u>
Interest Rate		2.66%
Monthly Payment	\$	1,712

NOTE 18 - POST EMPLOYMENT BENEFITS:

The City provides post-employment health care benefits to all retired employees and/or their spouse and life insurance benefits for one retiree only. The benefits are provided in accordance with the union agreement, which includes the provision that upon a retiree and/or spouse's eligibility for Medicare, the City agrees to pay for the supplemental health insurance coverage for both.

For all employees the City agrees to pay the premium for each employee and their spouse at time of retirement. Employees may elect to have coverage provided to children at the employee's expense.

In order for an employee to be eligible for health care benefits at retirement, the employee must retire from active service with the City at age 60 with 10 years of service for Division 1 (general) or at age 50 with 25 years of service for Division 2 (police).

During 2005 retirees and/or spouses were eligible for the post-employment health care benefits at a cost of \$56,338 and one retiree was eligible for life insurance benefits at a cost of \$107. The City's policy is to finance these benefits on a pay-as-you-go basis.

Required Supplemental Information

**Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 797,436	\$ 796,892	\$ 796,892	\$ -
State Sources	148,960	46,509	147,927	101,418
Local Sources	113,200	211,674	90,334	(121,340)
Charges for Services	107,311	95,970	115,782	19,812
Interest & Rentals	6,600	5,929	6,902	973
Other Revenue	14,625	32,080	31,671	(409)
TOTAL REVENUES	1,188,132	1,189,054	1,189,508	454
EXPENDITURES:				
Legislative:				
City Council	2,841	2,056	2,055	1
General Government:				
City Superintendent	115,661	114,847	114,957	(110)
Elections	2,700	2,970	2,972	(2)
City Assessor	19,060	23,277	23,278	(1)
City Clerk/Treasurer	124,765	127,163	129,273	(2,110)
Board of Review	350	267	267	-
City Hall	22,417	31,220	31,974	(754)
Other General Government	160,591	146,735	172,452	(25,717)
Total General Government	445,544	446,479	475,173	(28,694)
Public Safety:				
Police Department	240,441	236,726	236,727	(1)
Total Public Safety	240,441	236,726	236,727	(1)
Public Works:				
Highways & Streets	171,923	172,082	171,821	261
Sanitation	30,524	10,861	16,441	(5,580)
Total Public Works	202,447	182,943	188,262	(5,319)
Recreation & Cultural:				
Launch Ramp	31,826	28,977	28,967	10
Parks	75,849	94,524	94,507	17
Total Recreation & Cultural	107,675	123,501	123,474	27
Capital Outlay	43,800	27,041	50,791	(23,750)
Debt Service	60,876	112,308	112,308	-
TOTAL EXPENDITURES	1,103,624	1,131,054	1,188,790	(57,736)

**Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS OF REVENUES OVER EXPENDITURES	84,508	58,000	718	(57,282)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	54,550	6,250	11,250	5,000
Operating Transfers Out	(129,210)	(139,172)	(215,240)	(76,068)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 9,848</u>	<u>\$ (74,922)</u>	(203,272)	<u>\$ (128,350)</u>
FUND BALANCE, JULY 1			<u>543,518</u>	
FUND BALANCE, JUNE 30			<u>\$ 340,246</u>	

**Required Supplemental Information
Budgetary Comparison Schedule
Major Streets Fund
Year Ended June 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 103,586	\$ 110,834	\$ 109,557	\$ (1,277)
Interest & Rentals	75	135	139	4
Other Revenues	-	245	245	-
TOTAL REVENUES	103,661	111,214	109,941	(1,273)
EXPENDITURES:				
Public Works	143,560	155,910	156,979	(1,069)
TOTAL EXPENDITURES	143,560	155,910	156,979	(1,069)
EXCESS OF REVENUES OVER EXPENDITURES	(39,899)	(44,696)	(47,038)	(2,342)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	49,974	49,974	57,038	7,064
Operating Transfers Out	(10,000)	(10,000)	(10,000)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 75</u>	<u>\$ (4,722)</u>	-	<u>\$ 4,722</u>
FUND BALANCE, JULY 1			-	
FUND BALANCE, JUNE 30			<u>\$ -</u>	

**Required Supplemental Information
Budgetary Comparison Schedule
Local Streets Fund
Year Ended June 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 38,126	\$ 47,580	\$ 47,033	\$ (547)
Interest & Rentals	20	14	14	-
Other Revenues	-	245	245	-
TOTAL REVENUES	38,146	47,839	47,292	(547)
EXPENDITURES:				
Public Works	89,535	109,334	111,254	(1,920)
TOTAL EXPENDITURES	89,535	109,334	111,254	(1,920)
EXCESS OF REVENUES OVER EXPENDITURES	(51,389)	(61,495)	(63,962)	(2,467)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	51,000	51,000	76,726	25,726
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (389)	\$ (10,495)	12,764	\$ 23,259
FUND BALANCE, JULY 1			2,067	
FUND BALANCE, JUNE 30			\$ 14,831	

Other Supplemental Information

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Special Revenue Funds					Debt Service Funds			Capital Project Funds		Permanent Trust Funds	
	Fire	First Responders	Portable Hydrant	Brownfield Redevelopment	MEDC Streetscape	1989 General Obligation Bonds	GO Bonds Water Improvement	Main Street Bonds	Capital Improvement Bond	Main Street Project	Tri Centennial Trust	Totals
ASSETS:												
Cash & Investments - Unrestricted	\$ 70,874	\$ 3,656	\$ 1,724	\$ 1,337	\$ 2,500	\$ -	\$ -	\$ -	\$ 3,811	\$ 6,397	\$ -	\$ 90,299
Cash & Investments - Restricted	37,999	-	-	-	-	3,918	5,859	6,642	-	-	5,582	60,000
Other Assets	104	136	-	-	-	-	-	-	-	-	-	240
Due from Governmental Units	12,016	1,157	-	-	-	-	-	-	-	-	-	13,173
TOTAL ASSETS	\$ 120,993	\$ 4,949	\$ 1,724	\$ 1,337	\$ 2,500	\$ 3,918	\$ 5,859	\$ 6,642	\$ 3,811	\$ 6,397	\$ 5,582	\$ 163,712
LIABILITIES:												
Due to Other Funds	\$ 7,000	\$ -	\$ -	\$ -	\$ 2,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,500
Accounts Payable	100	-	-	-	-	-	-	-	-	-	-	100
TOTAL LIABILITIES	7,100	-	-	-	2,500	-	-	-	-	-	-	9,600
FUND BALANCES:												
Reserved	-	-	-	-	-	-	-	-	-	-	5,582	5,582
Unreserved:												
Undesignated	100,096	4,949	1,724	1,337	-	-	-	-	-	-	-	108,106
Designated for Debt Service	-	-	-	-	-	3,918	5,859	6,642	-	-	-	16,419
Designated for Speical Projects	13,797	-	-	-	-	-	-	-	3,811	6,397	-	24,005
TOTAL FUND BALANCES	113,893	4,949	1,724	1,337	-	3,918	5,859	6,642	3,811	6,397	5,582	154,112
TOTAL LIABILITIES AND FUND BALANCES	\$ 120,993	\$ 4,949	\$ 1,724	\$ 1,337	\$ 2,500	\$ 3,918	\$ 5,859	\$ 6,642	\$ 3,811	\$ 6,397	\$ 5,582	\$ 163,712

**Statement of Revenues, Expenditures, and
Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2005**

	Special Revenue Funds					Debt Service Funds			Capital Project Funds		Permanent Trust Funds	
	Fire	First Responders	Portable Hydrant	Brownfield Redevelopment	MEDC Streetscape	1989 General Obligation Bonds	GO Bonds Water Improvement	Main Street Bonds	Capital Improvement Bond	Main Street Project	Tri Centennial Trust	Totals
REVENUES:												
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,233	\$ 97,176	\$ -	\$ -	\$ -	\$ 155,409
Federal Sources	-	-	-	57,306	-	-	-	-	-	-	-	57,306
State Sources	2,150	-	-	-	-	-	-	-	-	-	-	2,150
Local Sources	35,000	-	-	-	-	-	-	-	-	-	-	35,000
Charges for Services	90,714	9,722	-	-	-	-	-	136	-	-	-	100,572
Interest & Rentals	936	22	18	28	38	14	25	47	198	66	377	1,769
Other Revenue	3,185	-	-	-	-	-	-	-	-	-	-	3,185
TOTAL REVENUES	131,985	9,744	18	57,334	38	14	58,258	97,359	198	66	377	355,391
EXPENDITURES:												
Public Safety	91,678	11,499	-	-	-	-	-	-	-	-	-	103,177
Public Works	-	-	-	66,047	10,463	-	-	-	-	-	-	76,510
Capital Outlay	25,111	-	829	-	-	-	-	-	-	-	-	25,940
Debt Service	-	-	-	-	-	-	58,125	97,351	-	-	-	155,476
TOTAL EXPENDITURES	116,789	11,499	829	66,047	10,463	-	58,125	97,351	-	-	-	361,103
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	15,196	(1,755)	(811)	(8,713)	(10,425)	14	133	8	198	66	377	(5,712)
OTHER FINANCING SOURCES (USES):												
Operating Transfers In	33,917	4,319	-	-	2,500	-	-	-	-	-	-	40,736
Operating Transfers Out	(6,250)	-	-	-	-	-	-	-	(49,550)	-	-	(55,800)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	42,863	2,564	(811)	(8,713)	(7,925)	14	133	8	(49,352)	66	377	(20,776)
FUND BALANCES, JULY 1	71,030	2,385	2,535	10,050	7,925	3,904	5,726	6,634	53,163	6,331	5,205	174,888
FUND BALANCES, JUNE 30	\$ 113,893	\$ 4,949	\$ 1,724	\$ 1,337	\$ -	\$ 3,918	\$ 5,859	\$ 6,642	\$ 3,811	\$ 6,397	\$ 5,582	\$ 154,112

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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OFFICES IN
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members
of the City Council
City of Frankfort, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City of Frankfort, Michigan's basic financial statements and have issued our report thereon, dated September 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Frankfort, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City of Frankfort, Michigan in a separate letter dated September 29, 2005.

Honorable Mayor and Members
of the City Council

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Frankfort, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 05-1.

We also noted certain immaterial instances of noncompliance, which we have reported to management of the City of Frankfort, Michigan in a separate letter dated September 29, 2005.

This report is intended solely for the information and use of the Mayor, City Council, Management, federal awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

September 29, 2005



ANDERSON, TACKMAN & COMPANY, PLC
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members
of the City Council
City of Frankfort, Michigan

Compliance

We have audited the compliance of the City of Frankfort, Michigan with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Frankfort's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Frankfort, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, City Council, Management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

September 29, 2005

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency:			
Direct Award:			
Superfund Cooperative Agreement	66.458	BP-97540701-1	\$ <u>57,306</u>
U.S. Department of Agriculture:			
Direct Award:			
Rural Development Loan	10.766	-	<u>997,770</u>
Total Expenditures of Federal Awards			<u>\$ 1,055,076</u>

NOTE A - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Frankfort, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY:

The City has not been assigned a cognizant agency. Therefore, the City is under the general oversight of the U.S. Department of Agriculture that provided the greatest amount of direct federal funding to the City during 2005.

**NOTE C - RECONCILIATION TO COMBINED STATEMENT OF REVENUE,
EXPENDITURES AND CHANGES IN FUND BALANCE:**

The following is a reconciliation of the amounts reported on the basic financial statements to the Schedule of Expenditures of Federal Awards:

Total Federal per Combined Financial Statements	
Revenues – Primary Government	\$ 57,306
Add: Rural Development Loan	<u>997,770</u>
Total Federal Revenue Recognized per Schedule of	
Expenditures of Federal Awards	<u>\$ 1,055,076</u>

**Summary of Auditor's Results and Schedule of
Findings and Questioned Costs
For the Year Ended June 30, 2005**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
· Material weaknesses identified?	No
· Reportable conditions identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
· Material weaknesses identified?	No
· Reportable conditions identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of Major Programs

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.766	Rural Development Loan
Dollar threshold used to distinguish between types A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	No

Summary of Auditor's Results and Schedule of
Findings and Questioned Costs
For the Year Ended June 30, 2005

Section II - Financial Statement Findings

NONCOMPLIANCE WITH STATE STATUTES

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 05-1

Condition: Our examination of procedures used by the City to adopt and maintain operating budgets for the City's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The City's 2004-2005 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2004-2005 expenditures exceeded the board's approved budget allocations for some General Fund and City Hall/Fire Building Fund activities.

During the fiscal year ended June 30, 2005, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund and City Hall/Fire Building Fund listed in Note 16 of the financial statements.

Criteria: The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Recommendation: We recommend that the City and personnel responsible for administering the activities of the various funds of the City, develop budgetary control procedures for the General Fund and City Hall/Fire Building Fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Management's Response—Corrective Action Plan: Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

Section III - Federal Award Findings and Questioned Costs

NONE

**Summary Schedule of Prior Year Audit
Findings and Questioned Costs
For the Year Ended June 30, 2005**

NONE

Additional Information

CITY OF FRANKFORT, MICHIGAN

ADDITIONAL INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

Honorable Mayor and Members
of the City Council
City of Frankfort, Michigan

Our report on our audit of the basic financial statements of the City of Frankfort, Michigan, as of and for the year ended June 30, 2005, appears on page 1. That audit was conducted for the purpose of forming opinions on the basic financial statements. The additional information listed on the following pages regarding the Municipal securities disclosure requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 is presented for purposes of additional analysis and is not a required part of the basic financial statements, and accordingly, we express no opinion on it.

Anderson Tackman & Co. PLC

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 29, 2005

NOTE 1 - DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURES REQUIREMENTS:

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of June 30, 2005, the City has the following debt issues which apply to SEC Rule 15c2-12. As of June 30, 1999 the City agreed to provide the following disclosures relating to the following debt issue of Betsie Lake Utility Authority which applies to SEC Rule 15c2-12.

1. \$2,025,000 Sewage Disposal System Revenue Refunding Bonds, Series 2000.

NOTE 2 - TABLES:

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12.

A. Number of Sewer Customers by Water Classification:

Fiscal Year Ended June 30	Residential	Commercial	Industrial	Governmental	Other	Total Number of Meters	Percent Change
1998	842	128	8	16	13	1,007	0.50
1999	849	129	7	14	16	1,015	0.10
2000	913	129	7	14	16	1,079	6.00
2001	725	109	8	14	74	930	14.00
2002	751	114	7	10	22	904	3.00
2003	751	111	9	12	22	905	0.11
2004	728	140	12	12	23	915	1.00
2005	732	141	12	14	23	922	0.76

Source: City of Frankfort

B. Residential Sewage Disposal Service Rates:

Fiscal Year Ended or Ending June 30	Monthly Ready-to-Serve Charge (1)	Charge Per 1,000 Gallons
1998	18.00	3.00
1999	18.00	3.00
2000	18.00	3.00
2001	18.00	3.00
2002	18.00	3.00
2003	18.00	3.00
2004	18.00	3.00
2005	18.00	3.00

(1) Commercial and industrial ready-to-serve charges are based on residential ready-to-serve charges multiplied by a monthly Residential Equivalent Unit ("REA") factor.

Source: City of Frankfort

NOTE 2 - TABLES: (Continued)

C. Daily Industrial Surcharges for Sewage Disposal Service:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Wastewater with BOD > 300 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Wastewater with suspend solids > 300 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Wastewater with COD > 450 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Wastewater with phosphorous > 15 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00

Source: City of Frankfort

D Water Consumption as Billed by Meter Classification (1):

<u>Fiscal Year Ended June 30</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Municipalities</u>	<u>Other</u>	<u>Total</u>	<u>Percent Change</u>
1999	56,589,990	28,717,399	4,114,390	1,576,850	4,223,371	95,222,000	17.92
*2000	40,320,479	14,421,143	5,378,380	279,470	6,618,591	67,018,063	(29.60)
2001	50,420,845	15,242,996	5,420,360	1,433,970	2,812,338	75,330,509	12.00
2002	40,489,052	19,648,287	3,451,600	1,277,320	2,443,530	67,309,789	11.00
2003	38,091,207	17,870,633	2,707,556	2,901,570	1,353,425	62,924,391	(6.50)
2004	35,741,251	18,145,503	1,588,833	832,080	1,367,215	57,674,882	(8)
2005	41,105,917	14,425,720	1,642,910	1,607,143	1,305,199	60,086,889	4.18

(1) In gallons.

* Discrepancies are due to reclassification of various accounts.

Source: City of Frankfort



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REPORT TO MANAGEMENT

To the Honorable Mayor
and City Commission
City of Frankfort, Michigan

We have audited the basic financial statements of the City of Frankfort, Michigan for the year ended June 30, 2005, and have issued our report thereon dated September 29, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City of Frankfort's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Frankfort's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Frankfort's compliance with the types of compliance requirements described in the *U.S. office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Frankfort's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Frankfort's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Frankfort are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005. We noted no transactions entered into by the City of Frankfort during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that the future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Frankfort's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Frankfort, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Frankfort's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Frankfort's financial statements or a determination of the type of auditors' opinion to be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Frankfort's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Enterprise Fixed Assets (Prior Year)

Fixed asset purchases for the enterprise funds were recorded as capital outlay expenses during fiscal 2001, 2002, 2003, and 2005. Fixed asset purchases for the enterprise funds should be recorded in the applicable fixed asset account in the general ledger to comply with U.S. generally accepted accounting principles.

Inventory (Prior Year)

The City currently expenses inventory for the Marina and Garbage & Rubbish funds. We recommend that the City record inventory for these funds as required by U.S. generally accepted accounting principles. We also recommend, the City complete a physical inventory and reconcile to the general ledger on a periodic basis.

Accounting Procedures Manual (Prior Year)

The City does not maintain a complete current accounting policies and procedures manual. We recommend the City develop an accounting policies and procedures manual which includes but is not limited to information regarding the criteria for establishing or discontinuing a fund, activities to be accounted for in each fund, closing practices to be followed for preparation of financial reports, and job/responsibility descriptions of each employee.

Compensated Absences (Prior Year)

The City does not record accrued compensated absences in the general ledger as required by the Governmental Accounting Standards Board (GASB) Statement 16 "Accounting for Compensated Absences." The responsible individual should begin recording the applicable amount for accrued compensated absences in the general ledger in accordance with GASB Statement 16.

General Fixed Assets (Prior Year)

A fixed asset listing at the time of audit had not been completed, though staff had accumulated new-tagged assets and support documentation. The fixed asset listing should be updated to reflect these assets as well as deletions found during the audit. Also we recommend increasing the capitalization policy threshold to \$5,000.

General Ledger (Prior Year)

Several accounts (receivables, payables, interfund loans, transfers, and fund equity) needed to be reconciled at year end. We recommend that management reconcile all accounts to supporting information periodically.

Payroll Deductions (Prior Year)

The payroll deduction account balances (i.e. social security, retirement, and workmen's comp.) are not accurately recorded each month. There are various balances that continue to accumulate. Procedures should be reviewed to ensure that current and accurate payroll deduction liabilities are recorded.

Budgeting

Public Act 621 requires that all expenditures be budgeted prior to payment. During fiscal year 2005, the City had excess expenditures over amounts appropriated. Additionally, the City did not adopt its budgets in accordance with the state law. Specifically, budgets adopted for the Major and Local Streets, City Hall, and MEDC Funds had expenditures in excess of beginning fund balance. These funds should be budgeted in accordance with Uniform Budgeting and Accounting Act guidelines.

Clearing Funds

The City has two clearing funds, accounts payable and payroll. The funds by their definition should only act as means of paying bills and payroll. The funds should not maintain any surplus or deficit cash. At year end, the accounts payable fund has surplus cash and the payroll fund has deficit cash. We recommend that this issue be further researched to ensure that the funds are operating as intended.

USDA Loan-City Hall Fund

The City records the activities of construction and debt payment in a single fund. To comply with provisions of the loan document, payments must be separated into a debt service fund and capital project fund.

Cash

At year-end, common cash per bank was not completely reconciled to the common cash per ledger. We recommend that the bank balance be reconciled to the general ledger.

Marina Fuel Inventory

At year-end, a measurement could not be performed for fuel on hand due to a lighting strike to the tanks electrical system. In order to ensure that fuel inventory can be taken an alternate method should be available to take inventory.

Tax Collection Fund

During our testing of the Tax Collection fund, we noted that several large debit and credit balances existed at year-end. It appears that some of the tax collections are not disbursed from the appropriate liability accounts. We recommend that management review these liability accounts to ensure that all collections and disbursements are accounted for properly.

GASB Statement 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits other than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is being implemented in three phases, with the City of Frankfort, Michigan being required to implement the Statement for the year ended December 31, 2009. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the City will be required to pay for these benefits. Beginning in 2009, the City will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The City Commission should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Conclusion

This information is intended solely for the use of the Mayor, City Commission, and management of the City of Frankfort and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

September 29, 2005